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C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000165

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E.O. 12958: DECL: 01/30/2015

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SUBJECT: ECONOMISTS' FTA FRUSTRATIONS, CONCERN FOR FUTURE
(C-NE4-01168)

REF: MUSCAT 27 AND PREVIOUS

Classified By: Ambassador Richard L. Baltimore III.
Reasons: 1.4 (b) and (d).

Summary

[11.](#) (C) Two Omani economics professors recently discussed with Econoff the upcoming free trade agreement (FTA), the state of the Omani economy, and prospects for Omani college graduates. The academics displayed a subtle but unmistakable sense of frustration and isolation in their university setting, particularly re their exclusion from any sort of voice in the FTA process. Contrary to government pronouncements on the state of the economy, the economists described their pessimistic view of diversification and growth in Oman. The two scholars predicted there would be very little internal opposition to the FTA from business groups, primarily since the export sector is relatively weak and underdeveloped and the domestic market already welcomes a host of American products. End Summary.

Getting a Fresh Perspective on FTA

[12.](#) (C) Econoff recently visited Sultan Qaboos University (SQU), outside of Muscat, to discuss the upcoming FTA negotiations and the state of the Omani economy in an academic setting. Dr. Asya al-Lamki, Assistant Dean for Research and Postgraduate Studies at the College of Commerce and Economics, and Dr. Hatem al-Shanfari, Professor of Economics and Finance (strictly protect), agreed to chat for over an hour regarding these and other issues. As part of a faculty that consists of more than 70 instructors, with 2000 enrolled students in over 6 departments, these professors at the College of Commerce and Economics have considerable exposure to current thinking about Oman's place in the regional and global economy.

In the Dark on FTA

[13.](#) (C) Both economists smiled when asked about their view of the FTA and its impact on Oman. By and large, neither one knew much about the FTA process or how far it had advanced between Oman and the United States. They had heard rumors and speculation, but no one from the government had ever taken the time to consult with SQU. More broadly, there is no systematic effort by the government to include academia in decision-making; even the economic committees of the State and Consultative Councils do not seek SQU's advice when conducting studies on the national economy. This isolation visibly frustrated the two academics, although they evinced no bitterness.

[14.](#) (C) As for potential opposition to the FTA from entrenched business interests, Dr. al-Shanfari dismissed this notion by claiming that the local trading groups were already dealing heavily in American products, and that the export base in Oman was relatively weak and could not muster much in the way of support or opposition. As for the government and its readiness for free trade, both economists believe that the Ministry of Commerce and Industry does not emphasize trade nearly as much as it should.

Troubles with Economic Strategy

[15.](#) (C) According to al-Shanfari, Oman's economic development strategy still focuses primarily on industry, despite the poor results thus far. Most Omani industrialization involves capital-intensive manufacturing and production that does very little to address the human resource development needs. Al-Lamki nodded as al-Shanfari lamented the government's insistence on developing large-scale metal projects (i.e., a proposed multi-billion dollar aluminum smelter and a \$750

million iron and steel plant, both slated for construction near the northern port city of Sohar) which will employ relatively few Omanis and involve enormous start-up costs. Regarding labor, the economists felt that the policy of Omanization was fostering an unhealthy attitude toward non-Omanis, an unintended consequence that could come back to haunt the government if growth were to stall.

16. (C) Other problems include Oman's limited natural resource endowment. Beyond the well-chronicled woes of the petroleum industry (reftel), the Sultanate's natural gas supply is also encountering difficulties in terms of quantity and quality (NFI). These challenges are having a detrimental impact on Oman's liquefied natural gas (LNG) production. Such assertions track with comments from American oil company representatives who feel that Oman is already overcommitted in its long-term LNG supply contracts.

Deflating Inflation

17. (C) When asked about inflation in Oman and the prevailing perception that prices are rising much faster than official statistics indicate, the SQU professors explained that the official numbers were correct -- to an extent. The inflation rate is extremely low in Oman, but that is largely the result of the basket of goods used in measuring the Consumer Price Index. In real terms, claimed al-Shanfari, wages have been decreasing in Oman, and therefore consumers are feeling the pinch at the checkout counter and at bill-paying time more than in the past.

Whither Omani graduates?

18. (C) Regarding SQU graduates from the College of Commerce and Economics, Dr. al-Lamki stated that most female graduates preferred to hold out for government civil service positions. The males, in contrast, were increasingly looking to the private sector, primarily the banks and the oil companies, for employment opportunities. In the long run, al-Lamki worried about the demographic bulge that is entering the job market yearly. She cited statistics to illustrate her concern: of 60,000 Omanis in secondary school, roughly 10-15,000 will drop out. Of the remaining 45-50,000, only 10-15,000 will go on to higher education. Finding jobs or alternative educational options for the youth of Oman remains the most pressing socioeconomic challenge confronting Oman, according to al-Lamki.

Comment

19. (C) The view of the Omani economy from the ivory tower of SQU is not particularly rosy. Both professors are working hard to prepare a new generation of students for the challenges of a globalized economy, yet the gap between their academic position and the corridors of power in the government is wide. Their admonition against emphasizing capital-intensive development is falling on deaf ears; the Minister of National Economy very recently announced over \$9 billion of overall investment being pumped into the Sohar region for petrochemical plants, an aluminum smelter, a new oil refinery, a fertilizer plant, and a new power and desalination plant. What remains to be seen is the effect of such development on overall employment and the ability of these industries to compete in a global marketplace. In the meantime, we will aim to engage SQU and other academic institutions more regularly during the FTA negotiation and implementation process (perhaps the Omani government will follow suit) in order to raise awareness about the agreement and how it can benefit Oman.

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